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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 001308

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STATE FOR NEA/ARP, EB; TREASURY FOR DAS SAEED, JROSE

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SUBJECT: KUWAIT INVESTMENT AUTHORITY NOT WORRIED ABOUT USD
OR SUBPRIME, CONCERNED ABOUT PROTECTIONISM

Classified By: CDA Alan Misenheimer for reasons 1.4 (b) and (d).

11. (C) Summary: On 28 August, Charge d'Affaires met with Kuwait Investment Authority (KIA) Managing Director Bader Al-Sa'ad and his Executive Director Ahmad Bastaki to discuss the growing public interest in sovereign wealth funds (SWFs).

Taking a long-term view, Al-Sa'ad said KIA was not worried about the current spell of market volatility or the present weakness of the dollar. He said he was much more concerned about growing protectionist sentiment and the prospect of new capital restrictions or changes in tax and investment laws in the U.S. and Europe. Al-Sa'ad said KIA had no interest in taking a controlling stake in any U.S. companies. Referring to recent statements made to the press, Al-Sa'ad and Bastaki said KIA was making an effort to become more transparent. Al-Sa'ad noted that KIA's activities were monitored by the State Audit Bureau and the National Assembly. Most of KIA's investments are managed by external fund managers in the U.S. and Europe. Al-Sa'ad said he looked forward to an upcoming visit by Treasury DAS Saeed.

12. (C) On 28 August, CDA met with KIA Managing Director Bader Al-Sa'ad and his Executive Director Ahmad Bastaki to discuss the growing public interest in SWFs. Al-Sa'ad said he was pleased with the coverage that KIA received in a 24 August Wall Street Journal piece titled, "How a Gulf Petro-State Invests Its Oil Riches." He admitted, however, that he was puzzled by the high level of attention that SWFs are suddenly receiving in the press and from governments. He insisted that those who are inciting panic about SWFs need only look at the history of KIA, which has been investing responsibly in U.S. assets since 1953 with a long-term investment horizon focused on providing a stable source of income for Kuwait "after the oil runs out." Al-Sa'ad emphasized that KIA is interested primarily in portfolio investment and does "not want to be a major shareholder or take a controlling interest in any U.S. companies."

13. (C) When asked if was concerned about KIA's long position in U.S. dollar-denominated assets, Al-Sa'ad answered, "We are not concerned about cycles, volatility, or periodic turmoil."

He added that KIA would weather the current sub-prime turmoil just as it has weathered Black Monday in 1987, the Asian Crisis in 1998, and the bursting of the dot-com bubble in 2001. Al-Sa'ad said he was much more concerned about growing protectionist sentiment and the prospect of new capital restrictions or changes in tax and investment laws in the U.S. and Europe. He said rather than casting blame on foreign investors for its current account deficit, "the U.S. should work on fixing its own savings ratio."

14. (U) On the question of transparency, Bastaki said that KIA was making efforts to be more open about its activities. He cited Al-Sa'ad's interview with the WSJ and referred to a

press conference held by the Finance Minister in early July in which he publicly declared that the state-owned assets managed by KIA had grown by 30 per cent over FY2006/2007 with the Kuwait Fund for Future Generations reaching a value of \$174 billion and the General Reserve Fund reaching a value of \$39 billion as of 31 March 2007. Al-Sa'ad added that KIA is monitored by Kuwait's State Audit Bureau which, in turn, reports to the National Assembly.

15. (C) According to Al-Sa'ad, there is little coordination between the SWFs in the GCC, which each have different strategies and risk profiles. He said that he tried in the past to approach the SWFs in Abu Dhabi and Qatar to propose joint investments but his counterparts showed no interest.

16. (U) Al-Sa'ad said he looked forward to meeting with Treasury DAS Saeed in Kuwait on 17 September.

17. (SBU) KIA Background: The Kuwait Investment Authority was founded in 1982, though its London-based subsidiary, the Kuwait Investment Office, has existed since 1953. KIA manages the General Reserve Fund (which receives all government revenues and includes other state-owned funds, including the Kuwait Petroleum Corporation Reserve Fund), the Fund for Future Generations (which receives 10% of the all state revenues annually and reinvests all of its investment income), and other moneys committed by the Ministry of Finance. (Note: In FY2006/2007, about 95% of government income came from oil). KIA invests primarily in OECD countries with asset allocations roughly corresponding to each country's share of world GDP. Most of KIA's investments are managed by external fund managers in the U.S. and Europe, though KIA's London office manages some of its investments directly. KIA's board of directors is headed by the Minister of Finance, with other seats allocated to the Oil Minister,

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the Governor of the Central Bank, the Under Secretary of Finance, and five other Kuwaiti nationals, three of whom must not hold any other public office. KIA employees about 330 staff in Kuwait and about 100 in London. The staff in Kuwait do not manage investments directly but are characterized as "managers of fund managers." About 80% of KIA's staff are Kuwaiti nationals. Al-Sa'ad says he hires about one out of every five applicants, who are required to have a degree in business and strong English skills. KIA offers its employees impressive benefits including a fully-funded MBA at any top-25 university at which they are accepted as well as 2-3 year rotations as "Junior Professional Officers" at the World Bank. Al-Sa'ad said because the Kuwaiti office, but not the London Office, is constrained by Kuwait's civil service pay scale, he loses many of his most talented employees to more lucrative jobs in the private sector.

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